

LYNCHBURG CITY COUNCIL

Agenda Item Summary

MEETING DATE: **March 26, 2002; Work Session**

AGENDA ITEM NO.: **3**

CONSENT:

REGULAR:

CLOSED SESSION:

ACTION:

INFORMATION: **X**

(Confidential)

ITEM TITLE: **Medical Plan Options**

RECOMMENDATION: Two primary issues are presented for informational and discussion purposes. First, to reduce the overall cost of the medical plan, information is presented about ways to shift a portion of the medical expense to the members incurring the highest costs. Second, information is presented about rates of contribution compared to actual cost for different member groups. Options include increasing the basic deductible, increasing the pharmacy co-pay, adding a co-pay for visits to a specialist, and increasing the rate of contribution by retirees under the age of 65 for their own coverage and their dependent coverage.

SUMMARY: Overall medical costs continue to increase significantly. Piedmont Community Health Plan (PCHP) projects the total City cost of FY03 medical care to be about \$5.8M. This figure represents a 10% increase when compared to current collections. While the cost for medical services is increasing at a moderate pace, increases for prescription drugs are much higher. The current situation also indicates a continuation of the disproportionate subsidy that the City and active employees provide for retiree coverage. Modifications to the plan elements and an increase in contributions from retirees under 65 support the principles of providing affordable, quality care to all members while ensuring an equitable distribution of the liability between the City and the members.

PRIOR ACTION(S): No relevant actions

FISCAL IMPACT: Maintaining the current plan and rates of contribution will drive a need for increased resources from City funds each year as the gap between the actual cost and the contributions from employees and retirees <65 widens.

CONTACT(S): Margaret Schmitt and Karen Loughney, 847-1315

ATTACHMENT(S): Medical Options, Current Statistics and Trend Data

REVIEWED BY:

Medical Plan Options

Changes support the following principles:

- Recognize that medical coverage is primarily intended to protect members in catastrophic situations
- Shift some of plan cost to the members incurring the most cost – as a group and individually
- Increase the ability for employees to manage their costs
- Minimize impact on active EE dependent coverage cost due to lack of resources for salary increases
- Begin to make transition to retiree contributions reflective of true cost of the coverage

Current Collections \$5.3M

PCHP FY03 Cost Projection with current plan \$5.8M (based on trend data using our medical and pharmacy claims and fixed costs)

Note: All dollar amounts are approximate

Option 1 – Requires no rate increase

Allow members to access all covered services without a referral from the primary care physician (PPO)

\$750 deductible

\$20 co-pay for primary care and \$30 co-pay for specialist

30% co-pay for prescriptions, mandatory generic

Income \$5,233,807

Expense \$5,209,087

Option 2 - Requires approximately 2% increase in rates other than retiree <65

Allow members to access all covered services without a referral from the primary care physician (PPO)

\$500 deductible

\$20 co-pay for primary care and \$30 co-pay for specialist

40% co-pay for prescriptions, mandatory generic

Retiree <65 dependent contribution increases 12%

Income \$5,316,688

Expense \$5,316,688

Option 3 – Requires no rate increase

Allow members to access all covered services without a referral from the primary care physician (PPO)

\$500 deductible

3 tier prescription co-pay @ \$10/20/40, mandatory generic

Income \$5,253,933

Expense \$5,253,933

Overall Concerns:

- Level of confidence in PCHP projections, especially for pharmacy expenses
- Lack of reserves for unforeseen and unpredictable costs
- Probability of continuing run-away increases in prescription costs
- Acceptance of plan erosion and cost sharing by employees and retirees
- Although a change was made such that employees hired after 7/1/96 will bear full cost of coverage, action is needed to address the cost of current retirees and those retiring in the next 9 years.

Average annual per member medical cost
(Includes medical services and pharmacy costs)

	Active EE	Retirees <65	Retirees >65
1999	\$1,821	\$3,031	\$1,750
2000	\$2,157	\$3,304	\$1,954
2001	\$2,494	\$3,916	\$1,952
2002	\$2,976	\$5,933	\$1,435

Average number of members per group

	Active EE	Retirees<65	Retirees >65
1999	1193	197	251
2000	1214	227	186
2001	1217	240	191
2002	1224	255	192

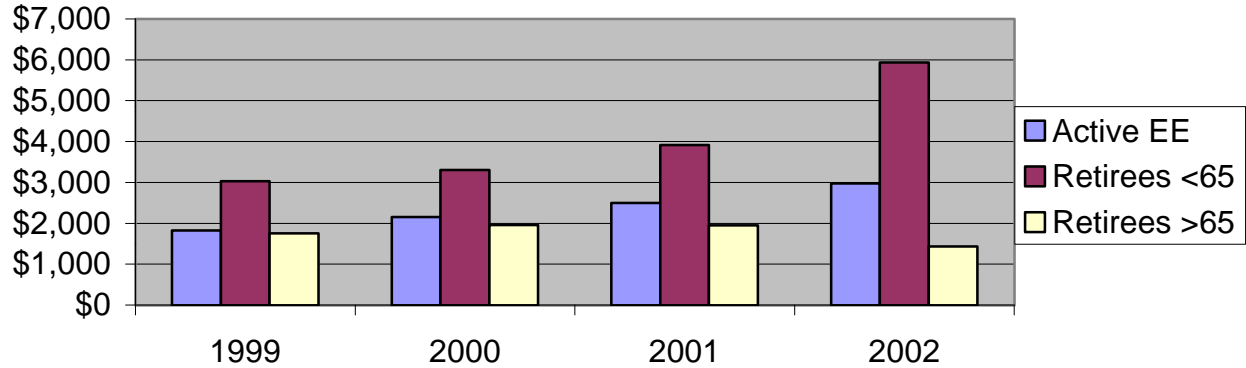
Total Claims by Year

1999	\$4,001,018
2000	\$3,956,702
2001	\$5,088,235
2002	\$5,342,100
2003	\$5,800,000
2004	\$6,670,000
2005	\$7,670,500
2006	\$8,821,075
2007	\$10,144,236

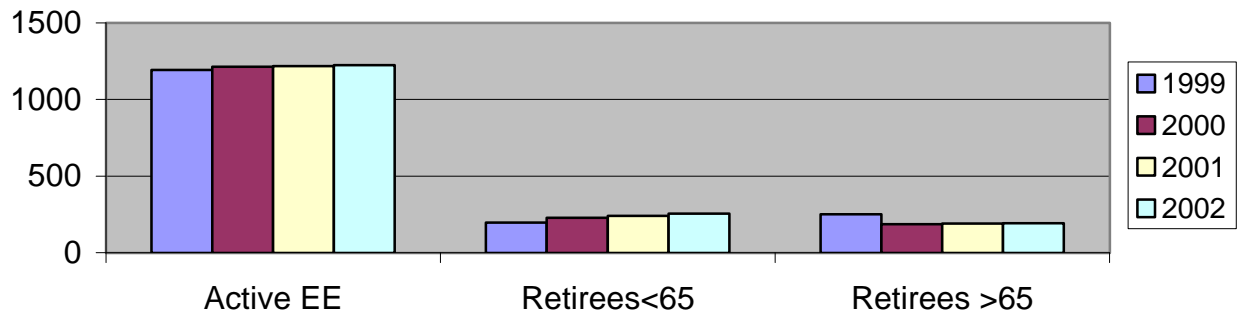
2003 -2007 projections assuming 15% annual increase and no change in plan

Medical Plan Trends

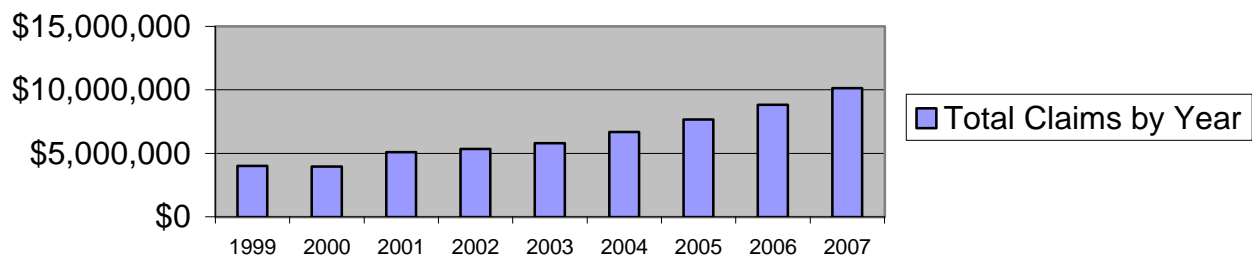
Actual Medical/Pharmacy Cost Per Employee/Retiree



Average Group Size



Total Annual Claims Trend



2003-2007 projection based on 15% annual increase and no change in current plan

Example of Cost by Group

**Distribution of Members
2002**



**Average Cost per Member
2002**

